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Chronique

CONVERGENCE OF EU AND US INDUSTRIAL POLICY: "THE OBSESSION OF COMPETITIVENESS"

Sarah Guillou†

1. INTRODUCTION

Two dynamics led to a convergence in the European Union (EU) and the United States (US) industrial policy views: institutional EU construction on the one hand, and a common threat from Asia's economic ascent on the other hand. This convergence is not however a sign that the EU and the US have reached equal economic performances. But the similarities of the way they perceive industrial policy shed light on their shared perception of future economic challenges.

The EU members have no common industrial policy similar to their shared trade policy for instance. That said, the EU remains the source, not only of many industrial projects that ultimately build industrial policy, but also of many of the rules that shape individual EU members' industrial policy. The bulk of rules and communications from EU institutions contribute to a specific view as regards industrial policy. I will discuss this view here, putting aside the respective industrial policies of individual EU

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members. Though this policy does exist, it is largely restricted to respect of EU competition and rules regarding public funding.[1]

The EU and the US economies account together for about half the entire world GDP and nearly half of manufacturing production.[2] They are also involved in establishing most international economic rules as principle members of the foremost International Economic Organizations. Their industrial policies are undoubtedly decisive in relation to what other countries will do whether they decide to do the same or to do the opposite. But before influencing the others, the EU and the US influence each other and their respective industrial policies are a result of this structure of mutual influence. Of course, these influences are far from symetrical and most often US industrial policy is a challenge to EU policy.[3] While the EU has long been a follower of the US, and to a certain extent this is still the case, their relationship, today, is either a natural partnership or an acute competition. Their economic proximity makes them very cautious and thoughtful towards what the other is doing, whether to follow it or to counteract it. But the relationship between the EU and the US is evolving, while their economic power is being challenged by emerging economies particularly China. Eyes have shifted towards Asia. EU and US industrial policy is less a response to each other but rather a means for dealing with the main challenges of economic globalization.

Both EU and US representatives claim they have no industrial policy, but both are dramatically and increasingly concerned by the state of their industry – leading to numerous policies affecting firms and industries. Broadly speaking, Industrial Policy is the "the set of government actions affecting companies in different productive sectors in a country (including service companies) and, more specifically, affecting their ability

1 For example an EU member has to declare to the European Commisssion a three-year grant above 150,000 euros attributed to an individual firm.

2 Over 1996-2006, this share has been quite constant for the US while it has declined for the EU-15 at a rate of 1.4% per year on average. Source: World Development Indicators, 2009; OFCE (2010).

3 By European industrial Policy, I mean the industrial policy designed at the European level by an EU institution. But sometimes, in order to have an idea of what is going on in Europe regarding an indicator, it gives information presenting data from main European members.

to compete both domestically and abroad. This broad interpretation of industrial policy would therefore include microeconomic policies (anti-trust, innovation and internationalization), the provision of broad infrastructures (transport, communications, education, science and research) and sector-based aid to companies." This definition from the European Economic Advisers Group (2008) is often thought to be too broad to allow a clear understanding of what an industrial policy is. Most of the time, industrial policy is an amorphous concept at best. This makes comparisons between countries particularly awkward and implies that views about the nature of industrial policy are potentially different depending on countries.

According to a definition given by the US International Trade Commission (USITC), industrial policy involves "coordinated government action aimed at directing production resources to domestic producers in certain industries to help them become more competitive". However, the Lisbon Agenda of the EU states that "The main role of industrial policy at EU level is to proactively provide the right framework conditions for enterprise development and innovation in order to make the EU an attractive place for industrial investment and job creation." While the USITC definition gives a clear focus to sector-specific policies; the EU – expressed by the Commission or the European Council – understands the concept as horizontal policies.[4]

A study of main EU and US reports that underpin the call for an industrial policy shows a convergence of views focused on **competitiveness**. That is the master word that governs the definition of any industrial policies. This concept is now so common and overused that nobody questions its meaning and its evaluation. The focus on competition between emerging economies as well as on tradable production may hide the true vocation of an industrial policy. Of course the financial and economic crisis experienced by the EU and the US since 2007 has highly undermined their budget ability and has threatened further government interventions in private markets. At the same time it has enhanced the demand for industrial

4 Industrial policies are often classified into horizontal or vertical policies. Historically, vertical policies were first implemented and horizontal policies are now the policies at work. But often the distinction is not so easy as policies may combine both characteristics.

policy from economic players and emphasizes the threat on manufacturing industries. The crisis of 2007 and the following years is doomed to feed a specific moment in industrial policy-making. It calls for a debate on the goals of industrial policy.

To understand this convergence, the first Section intends to illustrate the background creating common challenges affecting EU and US manufacturing industries. While the second section explains what competitiveness stands for, the last section concludes on how much further thoughts is needed about the true vocation of any industrial politicy in order to mitigate the sole focus on competitiveness.

2. AN INDUSTRIAL POLICY FOR A THREATENED MANUFACTURING INDUSTRY

2.1. To what degree is the Manufacturing sector in decline?

The European Union and the US are still the main actors in world manufacturing production: the EU-19 achieves 26% and the US 21% of total production (Table 2).[5] As regards world exports, the EU is the biggest contributor given its high level of intra-European trade. Its trade with the US is first if the EU is taken as a single area.[6] This also makes both the EU and the US the main sources of manufacturing exports. But such a long-lasting supremacy has been relentlessly challenged since the beginning of the 1990s. The main sign of the disappearance of this supremacy is the decline in manufacturing employment.

5 While Germany is still the main EU contributor, the enlargement of the EU has led to an increase in the EU share of world manufacturing production and export.

6 The US is the first partner of the EU-27 with 242.4 billion euros of exports and an import total of 169.3 billion euros. The second partners are China and Russia and for imports, China is first and the US is second (according to figures for 2010).

Tableau 1. Manufacturing Employment[a] 1991-2007 (unless noted)

		USA	EU-15[b]	France	Germany
	Manufacturing Share 2007	10%	15%	13%	19%
	Av. Annual Change	-1.8%	-2.4%	-2.6%	-3.3%
	All Economy Jobs Change (million)	28	20	2.8	1.1
	Manuf. Jobs Change (million)	-3.8	-7.5	-1.04	-3.05
	Change in terms of 1991 jobs	-17%	-22%	-23%	-29%
1.3	Of which:				
	- Med-high tech. jobs	-7.1%	-7%	-7.8%	-13.7%
	- Low tech. jobs	-8.6%	-11.4%	-10.1%	-9.8%

Source: OECD STAN2009, calculations from the author.
a: Manufacturing includes industries defined at ISIC 2-digit 15 to 37.
b: EU-15 includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and United Kingdom

All of the old industrialized countries have experienced a loss in manufacturing jobs while total jobs increased during the last 16 years (see Table 1). The US lost nearly 4 million jobs – 17% of manufacturing employment in 1990. The Euro zone lost even more than the USA: nearly 6 million of jobs have disappeared – 20% of manufacturing employment in 1991. A look at the figures for France and Germany suggests that the more a country is specialized in manufacturing, the more the rate of job disappearance it had to face. Both the share of manufacturing employment over total employment and the average rate of decline from 1990 to 2007 are lower in the US than in the EU. This could mean that the US is on the way to reaching a plateau not yet reached by EU countries. The rate of decline may slow down until a country's manufacturing share reaches an incompressible level whether it is close to zero or higher.

The jobs lost were mostly located in low-technology industry, except for Germany where medium-high technology jobs loss is a little higher than the loss in low-technology jobs. Outside of the US, jobs loss in high-technology is the lowest compared to other industries. Of course the rate of change depends on the pattern of specialization at the beginning of the period of observation and its past evolution. If a country experienced a high rate of decrease before 1990, its jobs decrease may slow down subsequently. But all in all, the main conclusion from these figures is a compelling decline in manufacturing jobs. At the same time, the manufacturing industry is

still the location of the main driving forces for economic growth as shown by Table 2. Around 90% of total exports are from manufacturing industry and most of a country's R&D is also spent by manufacturing industries – between 70 and 90% depending on the country.

Tableau 2. Manufacturing Industries in World and Total Economy

	USA		EU-15		FR		GER		JAP	
	1999	2007	1999	2007	1999	2007	1999	2007	1999	2007
World Production Share	21.9	21.4	28.4	26.1	4.1	3.4	8.3	6.2	17.4	9.6
World Export Share[a]	13.7	9.8	41.5	44.6	5.4	4.8	10.1	11.5	8.8	6.4
Manuf. R&D Share[b]	64	70	82	82	86	86	91	90	94	90
Manuf. Export Share[c]	91	89	93	91	94	94	95	91	96	94

Source: OECD STAN2009, calculations from the author.
a: 2000 and 2007; EU-19
b: on Total R&D in 1999 and 2006; 2002 and 2005 for EU-14
c: on Total country Export

This makes manufacturing industry much more crucial for growth than what revealed its share over the economy's total value added. This is partly why the ongoing decline in employment and world shares is so worrying.[7] The decline in employment is reasonably seen as a natural and logical evolution of old industrialized economies submitted to structural change and a mark of their development. But it is also considered as a threat over these economies' future ability to grow. The international economic context pushes forward one of the two different perceptions at the forefront of the minds of international leaders. The dominant one influences then the design of industrial policy.

Today, many leaders and experts are asking for re-industrialization. From journalists[8] to experts (Rodrik, 2010; Aghion et al., 2011) and political

7 There are certainly other reasons linked to the powerful status of manufacturing as the only location of production of concrete commodities and materials. Manufacturing production is deeply associated with the past growth of old-industrialized countries.

8 The Economist 2011; Jon Gertner, "Does America need Manufacturing, New York Times August 24,2011.

leaders[9], all proclaim their fear of the disappearance of manufacturing production. Three arguments are in favor of this new focus on manufacturing. First, manufacturing industry is one of the main locations where jobs exist. Second, manufacturing exports are one of the keys to escaping the unbalanced external payments burden. The high level of public debt and the difficulties of borrowing on the one hand and the trend towards increasing prices of imported raw materials on the other hand, emphasize the need to export: the old industrialized countries have to boost their exports to be able to pay for their imports without borrowing. While nearly 80% of exports are composed of manufacturing products, the need to support industry seems to many observers to be increasingly inevitable. Third, the fact that most R&D investments stem from manufacturing industries makes the loss of these industries a big concern in terms of technological leadership. This fear is now shared by both the US and by EU members.

2.2. Convergence of views due to parallel concerns

2.2.1. How their views finally match

In the US, the laissez-faire doctrine and the reluctance to allow government to step into private business is prevailing. In the European Community, the common market goal and the need to forbid all rules that could create unfair advantages in favor of a member's firm to the disadvantage of another member's firm has become the backbone of European economic policies. The goal of the common market has led to a strict banning of any vertical industrial policy. Because of the need for the creation of uniform conditions of doing business in Europe, the EU commission has focused much more of its energy on supervising any kind of lack of competition than on creating tools for industrial policy-making. As stated by Buch-Hansen and Wigger (2010), during the past fifty years "a neoliberal competition only vision came to dominate, giving rise to a more market-based competition regime," in which public actors were excluded. "A public – private alliance of transnational actors, consisting of the European Commissions DG Competition and transnational business elite

9 Both Gordon Brown, when British Prime Minister, and Nicolas Sarkozy, French President, asked for re-industrialization.

networks, were the driving forces behind the neoliberalisation of competition policy."

The EU and US positions lead to a common consequence: industrial policy must be a policy for exceptional circumstances only. Both the EU and the US are claiming they have no industrial policy. Ketels (2007) reminds us that US officials frequently deny having any industrial policy because of their belief in competition and free markets. Industrial Policy officially exists nowhere. But in reality, measures that are a matter of industrial policy are everywhere. These measures are mainly of a horizontal-type while vertical policies are in principle implemented in exceptional circumstances only.

The US and EU positions have converged because each of them has come closer to the position of the other. First, EU views have converged towards US views. This convergence was the result of the European institutional process, which deepened economic integration and put the economic policy of European members under the surveillance of the competition policy regulatory authority. Second and more recently, US consciousness of the need to do something in order to maintain the US international economic rank leads to a more friendly environment regarding industrial policy.[10]

But today, the US and the EU face the same threat and the same challenge from the low-wage economies. Even if the extent of the threat is different, both are facing a rather new competition, at least in its intensity that both creates their concerns about technological achievements, and shapes their industrial policy. The share of import coming from China has impressively increased since the end of the 1990s. And this occurred regardless of the type of industries, as shown by Table 3.

In the space of 10 years, the share of import of high technology products has been multiplied by 5 for the US and Germany; and by 4 (or nearly 4) for

10 This view was recently expressed by the President B. Obama in a State of the Union Address in 2011: "We need to out-innovate, out-educate, and out-build the rest of the world. We have to make America the best place on Earth to do business."

France, Japan and the EU-15.[11] Chinese competition is no longer only challenging the low-tech industries. Of course, inside groups of industries ranked by their R&D investment level, firms are largely heterogeneous and deal with foreign and Chinese competition differently. There are losers and winners (see Bernard et al., 2004). But these overall figures show how pervasive the Chinese competition is.

At the same time, R&D expenditure has grown impressively in China, at an annual average rate in two-figures for 2000-2007 – from 17% to 22% depending on the statistics' sources. China has set a target of raising its R&D intensity to 2% by 2010 and to 2.5% or above by 2020.

Tableau 3. Share of Chinese Imports in 2007 and average annual growth rate (AGR) since 1997 in percentage

Industries	USA		EU-15		FR		GER		JAP	
	share	AGR	share	AGR	share	AGR	share	AGR	share	AGR
High-technology	**25**	17	**17**	16	**10**	13	**15**	15	**25**	13
Medium-high technology	**11**	13	**10**	13	**4**	15	**5**	12	**28**	10
Medium-low technology	**12**	10	**10**	10	**3**	9	**5**	7	**16**	7
Low technology	**27**	7	**22**	9	**11**	9	**13**	9	**42**	5

Source: BACI, CEPII, calculations from the author.

2.2.2. The fear of losing technological leadership

This evolution stirred the same questions in the EU and US. How maintaining technological level and progress? How facing low-wage economies competition and their technological catching-up? How stopping the decline in manufacturing jobs? These questions have led to many reports intending to give solution to enhance competitiveness and boost innovation.

This evolution has stirred the same questions in the EU and the US. How to maintain technological levels and progress? How to face competition from

11 For the EU-15, the share is a percentage of the total import coming from non-European (non EU15) countries.

low-wage economies and their increasing ability to close the gap in technological advances? How to stop the decline in manufacturing jobs? These questions have led to many reports intending to offer solutions to enhance competitiveness and boost innovation. A recent evolution towards a decreasing of the taboo regarding industrial policy is noteworthy on both sides of the Atlantic since the middle of the 2000s, at least in the views expressed by those in charge of industry. Regarding European communications, the change is striking in terms of words. The title of Communication 474 (European Commission, 2005) –"Implementing the community Lisbon programme: A policy framework to strengthen EU manufacturing towards a more integrated approach for industrial policy"– is in itself a break in tone: an integrated Industrial Policy is not a taboo anymore. It is too early to conclude if it will really change the EU practice. But subsequent communications support the idea of an integrated industrial policy as does Communication 614 (European Commission, 2010) and a more recent one, which associates industrial policy with the reinforcement of competitiveness (European Commission, 2011).

Zourek (2007), a former European Commission directorate for Enterprise and Industry, advocates the change towards "a new industrial policy for Europe". Yet these communications, despite their titles, do not innovate a lot. They still focus on the provision of a global environment that is the best to allow firms to grow. The view doesn't clearly depart from a general framework giving supremacy to market self-regulation. What is new is nevertheless the conditionality to which the integration process is subjected. All regulations have now to be scrutinized regarding their impact on EU competitiveness. One of the commitments of the Commission is to carry out a complete assessment of the impact on competitiveness of any regulations set up in EU markets. EU integration is, now conditional on competitiveness. That means that some previous regulations were not always in favor of EU competitiveness. The goal of perfect competition is acknowledged not to be always the best way to achieve a higher competitiveness relative to the rest of the world. It also means that some objectives like achieving the Single Market or environmental objectives no longer have priority over competitiveness. This concept of competitiveness is never clearly defined.

Signs of this change are also visible in the views expressed in the United States. A few years after the burst of the technology bubble, the Council of Science Academies released a report which made a great stir across a wide public audience from experts to employees[12] . This sensational 2005 report was even used in the US President's 2006 State of the Union address; and it laid the groundwork for President Bush's American Competitiveness Initiative (ACI).[13] Six years later, the reference to education and R&D investment is still a large part of the State of the Union address as shown by the address given by Obama: "The first step in winning the future is encouraging American innovation."

Both the EU and the US expressed awareness that policies have to be implemented in order to support innovation and sustain competitiveness. The latter word is the key word underpinning the demand for an industrial policy.

3. COMPETITIVENESS: THE KEY WORD

Even if Krugman asserted clearly (and still repeats) that competitiveness is a misleading concept for a country, the number of reports on both sides of the Atlantic, aiming at enhancing each country's competitiveness is tremendous.[14] During the last 10 years, many reports from the US Congress,

12 The Committee on Prospering in the Global Economy of the 21st Century, National Academy of Sciences, National Academy of Engineering, and Institute of Medicine, Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future, Washington, DC: National Academies Press, October 12, 2005.

13 "The *American Competitiveness Initiative* should facilitate innovation and provide our nations children a firm grounding in math and science". To achieve these goals, the President called for the doubling over the next 10 years of the amount of federal funding for basic research, particularly in the National Science Foundation, the Office of Science in the Department of Energy, and in the core programs of the National Institute of Standards and Technology, Department of Commerce. In addition, the Initiative was to increase the number of math and science teachers and make the research and experiment tax credit permanent.

14 See Krugman (1994) who qualified competitiveness as "a dangerous obsession". His views have also been expressed more recently in a comment on Barack Obama's State of the Union address: "Competitiveness" posted on January 22, 2011 in Krugman's New York Times' blog.

the European Commission as well as numerous political declarations of intent, deal with competitiveness and how to achieve or maintain a high level of productivity growth and innovation. In Europe, this initially dealt with the question of catching up. But both the EU and the US are concerned with their level of technology and their level of competitiveness.[15]

Whether in the EU or in the US, a milestone has occurred triggering the return of the "obsession" of competitiveness: in the EU with the launch of the Lisbon Agenda in 2000, in the US with the release of the report from the Council of Science Academies in 2005 known by its abbreviated title: "The gathering storm".

The Lisbon Agenda was launched by the Lisbon European Council in 2000. It consisted of a 10 years set of strategies intended to make Europe, by 2010, the most competitive and "the most dynamic knowledge-based economy in the world by bringing combined public and private investment levels in R&D to 3% of GDP." The Lisbon Agenda was motivated by the need to catch up with US productivity and performance in innovation. It opened a new era in the way industrial policy is perceived and used in Europe. Though the Lisbon Agenda did not talk about industrial policy, its focus on competitiveness opened the way to the idea that governments could do something to boost competitiveness.

The failure of the Lisbon Agenda was quickly assessed by the Kok report (Kok, 2004) in which the lack of political will was identified as the main obstacle. Before the financial crisis occurred, the rate of employment was still at 66% (while the Lisbon objective was 70%); only 1.9% of GDP was being spent on R&D (only Finland and Sweden reached the 3% goal); and the productivity gap between the EU and the US had not decreased.[16] Lastly in 2010, the failure of the Agenda was shrouded in the depth of the financial

15 For recent examples, see the Report for Congress about Industrial Competitiveness and Technological advancement released in December 2010 (Schacht, 2010) and the Competitiveness report, 2010 from the EC released in October 2010.

16 In fact, the Lisbon Agenda ran up against serious obstacles during the 10 years period: the bursting of the ICT bubble; the recession in the aftermath of September 11th; and the enlargement of the EU in 2004 and 2007 (the Lisbon Agenda being based on EU-15). The enlargement raised institutional questions that took precedence in European debate over the aims of the Lisbon agenda.

and economic crises. A new ten-years agenda, "2020 Europe strategy", emerged as the next episode of the relentless pursuit of competitiveness.

On the other side of the Atlantic Ocean, the expression of concerns happened later but definitely triggered a new environment in favor of an industrial policy.

"The gathering storm" , a 500-pages report, released in October 2005, led to a new mainstream consensus in US innovation policy. A strong debate appeared in 2003 about the question of jobs going overseas, along with increasing concerns among Science academies about the ability of the US to "maintain its leadership in science and engineering to compete successfully, prosper, and be secure in the 21st century". The National Research Council was then requested to conduct a formal study on the issue, in order to assist in congressional deliberations.[17] The two main questions asked were to define the top 10 actions, in order of priority, that "federal policymakers could take to enhance the science and technology enterprise so that the United States can successfully compete, prosper, and be secure in the global community of the 21st century". The report proposed more federal funding for basic research in the physical sciences, more funding for science and engineering education, and tax credits for corporate research and development.

In these reports, competitiveness is taken as a generally recognized concept and as a consensual objective. It is indeed consensually admitted that increasing a country's competitiveness is good for growth and for jobs. But this is not as straightforward as it may be assumed.

3.1. What is competitiveness?

Competitiveness is a relative concept: it means to be better, i.e. sell more or produce at lower cost, than your rival. If your rival does not do this as well

17 The National Research Council was organized by the National Academy of Sciences in 1916 to associate the broad community of science and technology with the Academy's purposes of furthering knowledge and advising the federal government. The Council has become the principal operating agency of both the National Academy of Sciences and the National Academy of Engineering in providing services to the government, the public, and the scientific and engineering communities.

as you, your competitiveness increases. If competition between a US firm and a Chinese competitor is affected by political changes in China – such as a popular uprising creating a "Berlin moment" in China – the US firm could see its competitiveness increasing. Closer to now, if Chinese companies had to deal with a rise in inflation relative to inflation elsewhere, their competitiveness would go down.

Strictly speaking the competitiveness of an agent relative to another agent corresponds to the ratio of the agent's unit labor cost (labor cost divided by labor productivity) over other agent's unit labor cost, expressed in a same currency. This definition works as well for a single agent as for a collective agent like a country or an industry. This indicator is more accurate when the unit labor cost refers to the production of a single homogenous product: it allows the comparison of the labor cost of one unit of this product by one agent – country or firm – to another agent. Both unit labor costs have to be expressed in the same currency, which explains why the level of exchange rate does matter in competitiveness issues. Except by the continuous devaluation of its currency – without increasing inflation – the only way a country can on a long-term basis enhance its competitiveness is to increase its productivity or cut its labor cost.

This precise definition of competitiveness allows us to understand that the competitiveness of a company does differ from the competitiveness of a country. The competitiveness of a company is in no way a good or a bad thing for the welfare of a country. It all depends. To understand this, let's reflect on whether an industrial policy should encourage firms to relocate their unskilled production overseas. Workers and governments are inclined to say no. However, this would definitely enhance the firm's competitiveness. Is this good or bad for the whole economy? While it is likely to be good for the firm, it is less easy to draw a conclusion regarding the country's economy in the short term or the longer term.

So what represents the competitiveness of a country? Indicators for a country lie parallel to the aggregate of company indicators by using the share of each industry/firm and an average unit labor for each industry/firm. Insofar as the country's specialization pattern – shares of each industry in production – is different, making a comparison between different countries' aggregate indicators doesn't make much sense. It might

at least allow us to compare unit labor cost among countries with similar patterns of specialization – comparing France and Germany, for example, but not the United States and China.

To progress, the concept must be replaced by a different concept: the "non-price competitiveness". Competition is then not viewed as a battle between firms producing an homogeneous product but between firms satisfying a common consumer need. Regarding differentiated goods, firms compete to satisfy a more or less specific demand from consumers. In a market-economy, the price is always an argument in the function of demand, but it becomes less and less important when differentiation is also an argument. In an industry producing differentiated products (say cars), the competitiveness of this industry depends on its average labor cost and its average labor productivity relative to foreign industry's same indicators. But what is the accuracy of this indicator of competitiveness? Does it explain directly and entirely the amount of the industry world market shares? The answer is no. An industry world market share will depend on its ability to differentiate its product to fit the consumer need. This is all the more so when the industry is producing differentiated goods in a market with excess capacity. This ability to differentiate and to fit current and future consumer need will build international market shares. Then competitiveness – non-price competitiveness – could be grasped by market shares. But this less debatable way of assessing competitiveness gives no clues for policy-making. It doesn't allow us to understand how to improve a country's competitiveness because the corresponding determinants are not precisely known. So how can a policy be defined to improve a country's competitiveness?

3.2. How can competitiveness be improved, if necessary?

As seen before, competitiveness carries several meanings. The answers are different according to whether the definition of the country's competitiveness lies on (i) price-competitiveness or, (ii) non-price competitiveness.

Case (i) is the clearest and the most straightforward. Suppose we define a country's competitiveness in relation to an industry, toys for instance, how could we increase competitiveness relative to the same industry in

China? This goal is nearly unreachable: companies in Western countries will not be capable of manufacturing at less cost than Chinese companies. OECD (2010)'s estimates assess Chinese labor cost to be more than 20 times cheaper than say German labor cost. It does not make much sense to talk about an increase in the competitiveness of a developed country relative to that of low-cost countries unless the setting up of an economic policy intending to decrease the average wage drastically right away is envisioned. Devaluating the currency could be a solution, but the worthwhile amount of devaluation would be bound to increase inflation, cancelling out the intended impact.

What about increasing labor productivity? This depends on industry: in most cases there is little room for any rapid increase unless through the simple cutting of labor hours. A great deal of literature exists concerning productivity, its measurement and ways of increasing it about which I will not talk in detail here. Globally, these policies are mainly structural policies. They must entail a change in the specific country's specialization, the say change implying a higher level of technology and/or R&D content. A caveat is also rarely mentioned here: the link that exists between labor productivity and wages. An increase in labor productivity might correspond to an increase in payment to highly-qualified employees, resulting in an increase in labor cost. Therefore in this case, competitiveness will not increase, neither will jobs be created. Thus, an increase in labor productivity may not imply an increase in competitiveness.

Case (ii) calls for a policy that raises total factor productivity and intensifies innovation. New products or improved products might induce higher market shares. Are regarded the policies intending to create a favorable environment for firms to grow and innovate (better skills, better infrastructure, better administration, better patent protection system...). These long-term policies are promoted by most official reports. But nothing is said about their long-term achievements, the uncertainty associated with long-term issues as well as their inability to tackle immediate challenges. Nothing is said about the transition path which could have a cost in terms of jobs. Any policy aiming to increase non-price competitiveness is hard to evaluate because of a lack of precise indicators to follow. Market share is dependent on partners and on the growth of their demand as much as it is dependent on non-price competitiveness.

From this discussion, comes firstly the conclusion that the concept of competitiveness embedded in official statements and reports is a little different from the strict definition given by the competitiveness indicator. On the contrary, the so common competitiveness concept is actually a very confused concept. As Krugman indicated, the concept itself is as elusive as a policy goal. Competitiveness is understood as an ability to conquer market share but also more generally as an increase in a specific country's terms of trade, i.e. the value of exports over the value of imports. Mostly, when referring to competitiveness, these reports talk about an increase in non-price competitiveness by changing the country's specialization towards more high-quality products, and skilled jobs. Today the competitiveness concept in our developed economies' view is really used as synonymous with upgrading in order to increase export value and terms of trade. But there is not a single indicator to measure non-price competitiveness. Moreover there is a confusion between whether the goal is to enhance the firm's or the country's competitiveness. This appears mostly to be totally merged into a single goal. Finally, there is no debate about the competitiveness goal in itself in relation to the economic welfare of the country.

Technological progress is meant to increase both social welfare (health, sanitary conditions, communications, lower prices) and the terms of trade. And it is assumed that an increase in the terms of trade will make a country better-off and enhance its ability to invest in social conditions including infrastructure, security and better access to medical care for examples. Though nothing ensures that such investment will be made, it could certainly not be bad for the country and people. The remaining question remains the issue of jobs. The goal of competitiveness always overlaps with this question. The issue is sustained in the US by the massive volume of Chinese imports and because of India serving as an important relocation destination for US jobs in service industries. In the EU the focus is mainly on job creation. The question of relocation regards mostly intra-European movement – from Western to Eastern Europe. But competitiveness and job creation goals do not necessarily correspond whether in the short or long term. And this deduction is not clearly stated in existing reports.

The objective of competitiveness may seem to correspond to a "try anything once" concept which simply means: allowing the country to go ahead with regard to technological progress. Not much will have to be done here.

All in all, all these reports or declarations of intent expressed a demand for industrial policy, specifically a demand for a horizontal policy aimed at increasing the R&D investment while also supporting innovation and education. The 2007 crisis and the following years are doomed to feed a specific moment for industrial policies. The financial and economic crises has emphasized the need to help manufacturing industries whose situation has worsened during the crisis. It has also emphasized the harsh competition from Asian economies which didn't suffer as much from the crisis. This increased the pressure on manufacturing competitiveness while trade imbalances have emphasized the need to export more. All of these aspects establish good conditions for this obsession with competitiveness to be accentuated in the short-term future.

4. CONCLUDING REMARKS: WHY THIS OBSESSION WILL BE ACCENTUATED AND WHY IT SHOULD BE MITIGATED

This obsession should keep its strength, first because competition from emerging economies is not going to slow down, and second because trade equilibrium constraints coming from the sovereign debt situation emphasizes the need to export. Both causes demand more support in favor of industry – mostly manufacturing industries – and a focus on tradable production and its competitiveness.

Emerging economies are poised to pursue their ability to catch-up and to outperform the old industrialized countries in many manufacturing skills. Though employment in manufacturing will inevitably drop there too because of gains in productivity, their share of world manufacturing production should keep growing until labor costs reach comparable levels to those in western economies. Regarding trade equilibrium constraints – given the level of public debt and the cost of borrowing on one side and the trend of increasing raw material prices on the other, the old industrialized

countries need to boost their export levels in order to be able to pay their import costs without borrowing too much. While nearly 80% of exports are composed of manufacturing products, the need to support industry appears to many observers to be increasingly inevitable, bringing some leaders to call for re-industrialization. But there is no way to return to the previous comparative advantage. Both the EU and the US, old industrialized countries, need to focus on what they do better, not on what they did better.

So where is their comparative advantage today? It consists of quality, security, safety, ecology, knowledge and high technology, and all of these aspects included in manufacturing production made with high-wage workers (see Guillou and Nesta, 2011). There is only one sustainable way for western economies to keep their share of manufacturing production: by increasing the content of services by upgrading the value added achieved in their production. Industrial policy should therefore only focus on non-price competitiveness, abandoning the goal of price-competitiveness and embracing honest in relation to short-term job creation.

To justify spending public money to sustain firms, industrial policy has to be designed in order to increase the welfare of the whole population. Whether the justification for supporting industry is based on the presence of external factors or increasing returns to scale, the aim of industrial policy depends on political attitudes in relation to the future. There is no other way to define such political attitudes than to construct them in relation to the needs of a country's citizens.

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